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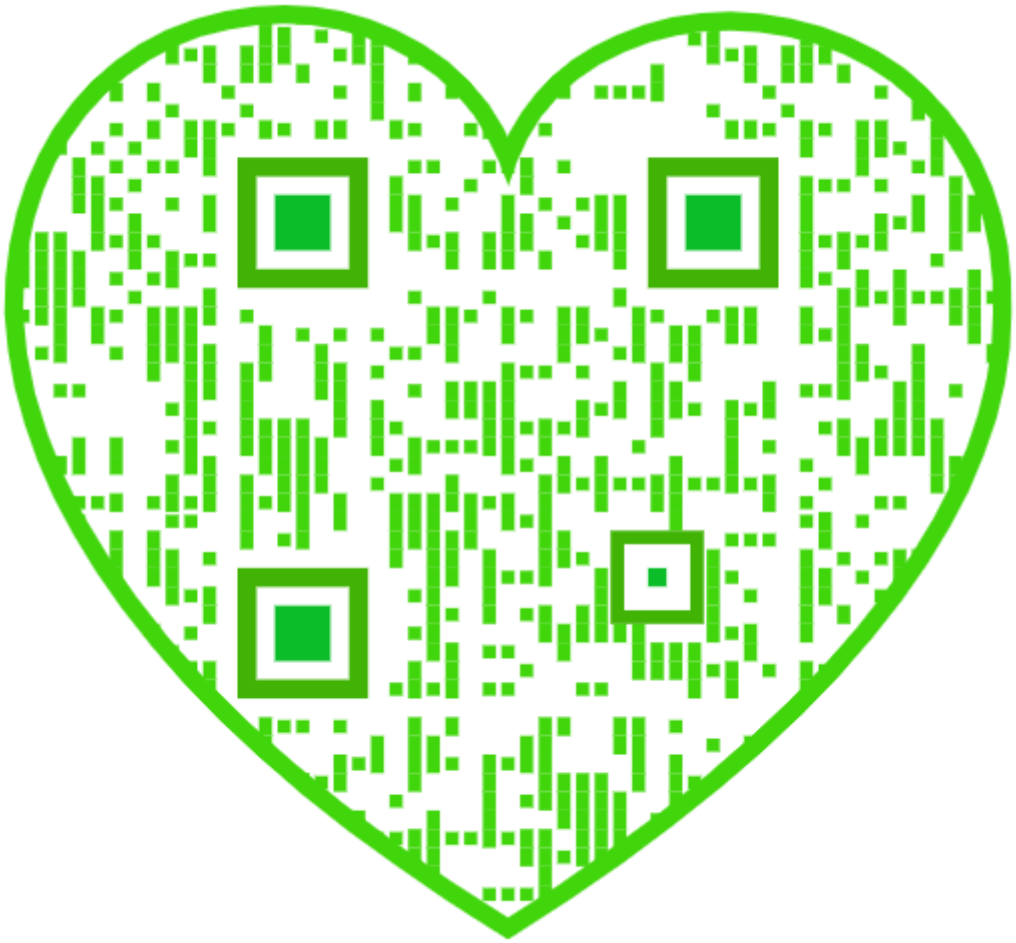
A SIMPLE EXPLANATION of MODERN BANKING CUSTOMS

Humphrey Robinson



A SIMPLE EXPLANATION

OF

MODERN BANKING CUSTOMS

BY

HUMPHREY ROBINSON

EDITED FROM A LEGAL STANDPOINT

BY

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Designed for the promotion of closer and more satisfactory relations between the public and the banks; and for the information of depositors generally, and of those just entering the banking business.

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A Simple Explanation of Modern Banking Customs

General Remarks

After some years of work in a bank, it has been impressed daily upon the writer that, if the depositors were fully informed about the details of the conduct of banks, closer and more satisfactory relations would result. Hence this attempt to explain, in a simple and concise way, avoiding as much as possible the use of technical terms, certain things that every depositor should know.

For ten years the writer was "in business." For an equal length of time he has been connected with a large city bank. He remembers his utter lack of comprehension of banks and their ways, and his consequent mistakes, perplexity, and embarrassment in dealing with them. Also the unfairness and prejudice with which he often judged them.

Recalling all this, he believes that, without giving offense, he can state these facts.

Many men having constant transactions with the banks do not realize the importance of the choice of a bank; few understand the correct way in which a note should be drawn, or how to determine the exact due date of a sixty or ninety-day note, or acceptance; what "protesting" a note or draft really means, and what effect it has on the drawers or endorsers; how to judge, from a bank's published statement, whether it is in a strong or weak condition; the functions of the Clearing House and the simplicity of its methods; why the banks are compelled to pursue a certain course in the collection of paper sent them, even though this course may be very objectionable to the payers; how checks are collected; the effect of certifying a check; and many other details. Also that very few depositors have ever seen a copy of the National Bank Act, or are familiar with the laws governing their own State Banks and Trust Companies.

This lack of knowledge of the laws and customs, from which there can be no safe departure, is undoubtedly the cause of many unreasonable requests; assertions of fancied rights; remon-

strances, and irritating misunderstandings. This condition should not exist. One explanation for it may be, that the work in a bank is so strenuous, everything having to be accomplished in so short a time, that the officers and employes do not have the opportunity to explain fully the reason why.

Many seem to think that the details of banking are very complicated. But there is no mystery about these details. They are very simple and sane. The methods of bookkeeping are really elementary, principally mere addition and subtraction. Of course the science of banking and political economy involves deep and profound study, but these are not treated here, and the writer has attempted merely to give an idea of the daily routine of a bank.

This can be stated with certainty. The interests of the public and the banks are identical; and an acquaintance with banking customs will enable any man to conduct his business with much greater intelligence, satisfaction and profit. Also that banks want to accommodate, as far as possible, not only their own customers, but others, because they are possible customers.

It is hoped that this writing, in some small degree, may hasten the time; when the political orators, remembering that the day of the private banker has passed, and that the people now own the banks, will cease inciting the public against them; when the law makers, elected by the stockholders and depositors of banks, will cease oppressing them by unequal and unjust taxation; when the public generally, realizing the necessity and importance of banks to every community, will cease being prejudiced against them and their ways, and, by reason of a better understanding, will feel closer and more cordial toward them.

So "here's to a better acquaintance" between the public and the banks.

The Choice of a Bank

The choice of a bank should be most carefully considered, especially by a business man.

The same care should be exercised in selecting a bank as would be used in choosing your lawyer or your doctor. Having done this, make it a rule to be as frank and open and straightforward with your banker as with your lawyer or your doctor. You will never lose by it. All banking relations must be founded

on mutual confidence. Once let your banker get the idea that you have deceived him, and naturally he is forced to view your statements with suspicion. Tell him the whole truth about your business and your resources, even though it hurts sometimes. It is primarily to his interest to help all his customers build up their business as much as possible, and to keep them going, and your success contributes to the general success of your bank. He should be, not only your banker, but your intimate financial adviser and your very good friend.

In deciding upon your bank, did you inquire into the character and disposition of its President and Cashier? Are they men whose business sagacity and honorable careers are such that you are glad to seek their advice; and can you repose every confidence in their keeping inviolate your business secrets? Will they fulfill to the letter their promises of protection to the best of their ability in times of financial stress? Or, have they exaggerated their resources and facilities and made all kinds of suave, but very general promises in order to get your account?

Have you gone a little further and considered the personnel of the Board of Directors of your chosen bank? That Board is supposed to approve or disapprove all loans and business arrangements. Or, did you open your account with some bank merely because of convenience of location, or because some friend suggested that institution?

Opening a Bank Account

In opening your account with a bank, you will be asked to give your signature and your address. Write your name naturally, as you are in the habit of signing it. The paying teller has to accustom himself to the peculiarities of the signature of every patron of the bank, and has to be constantly on the lookout for forgeries; for if he pays a forgery, the bank must stand the loss. He soon gets to know your signature as he knows your face. So don't have your signature on the bank's books as, John P. Williams, for instance, and then sign numbers of your checks, J. P. Williams. The letter "J" might stand for James or Joseph, and, if the account is in the name of John P. Williams, the bank is taking an unreasonable risk in paying out your money on a check signed, "J. P. Williams." It would have to make good any loss that might result thereby. A woman, for instance, will

open an account as Florence Perkins Smith, and then send out checks signed "Florence P. Smith;" or "F. P. Smith;" or if married, will sign, Mrs. Harry B. Smith.

Then the paying teller must see that every endorsement on the check is technically correct. For instance, that a check made payable to John P. Williams is not endorsed "J. P. Williams," and again that a check payable to "J. P. Williams, Trustee," is not endorsed by J. P. Williams only, and not as "Trustee."

Before going to the paying teller's window you should endorse any check you are collecting; even though it is made payable to "Cash" or to "Bearer." If the check should turn out "no good," the teller can then see at a glance who cashed it, and communicate with the proper party. Below your endorsement write what sort of money you want, whether gold, silver, or currency, and in what denominations. Compliance with these points saves much delay.

Every check should be endorsed exactly as it is made payable on its face. Many firms, as well as individuals, overlook this point daily.

The paying teller must watch for raised or altered checks. The law holds that any legal instrument is void if altered in any material way.

So many people, if they make a mistake in writing a check, will erase or alter the amount or the name, instead of taking a little more time and making out a new one. The banks have to be very cautious and particular about paying such checks, for they are paying out actual cash on doubtful orders. According to law, they must suffer the consequences if they pay to the wrong person or pay the wrong amount.

But all depositors must use every reasonable precaution to keep their checks from being altered in any way. Many people, especially in the rural districts, write checks in lead pencil. How easy it is for such checks to be changed if they fall into the hands of dishonest parties. The rejection of the account of any person, who will be so careless, is plainly only the part of safety.

The figures should be placed close to the dollar mark. In writing the amount of the check in words, begin close to the left hand margin, and when the amount is written, draw a line in the blank space left between the amount, and the word "dollars." The law says that where the figures and the written amount differ, the written amount shall govern.

How to Deposit

In making your deposit, always head your deposit ticket with your name exactly as you wrote it when leaving your signature with the Paying Teller, otherwise, it might be credited to some other person. Also, fill in the amount of your deposit as plainly, and as legibly as possible. After the receiving teller has checked off your deposit ticket, it is passed on to the individual bookkeeper who has charge of your account. He is only human, and any bad figures on your ticket may lead to mistakes and consequent irritation to you.

Always make out your own Deposit Ticket. The Receiving Teller should not be asked to do this. There are generally other people in line, and they, as well as the Teller, have a right to complain if he has to stop and do this for you.

Follow exactly the headings on the ticket. Checks on cities, other than your own, should be set down under the heading "Foreign;" and checks on banks in your city under "City Checks." Let the checks follow in order as they are listed on the ticket. Add the totals of these two headings separately and extend them as shown on the ticket. List your money separately into currency, gold and silver. Then add all your totals into one grand total at the bottom of the ticket.

When depositing currency arrange the bills so that the ones and twos will be together, the fives together, the tens together and so on. Have the bills straight and face upward. With the gold and silver follow the same idea. If your deposit is large put the money in packages and label with amount and your name.

By following these directions you will put the Receiving Teller under everlasting obligations. He has a very short time in which to accomplish a great deal, and his position at best is nerve racking.

In endorsing a check, either simply write your name on the back, or write "Pay to the order of_____Bank" and then sign your name. When a check is undoubtedly intended for you, and your name is not stated correctly on its face, endorse it *exactly* as it is made payable, and then endorse as you generally do. For instance, if a check intended for Brown Bros. & Co. is made payable to Brown Bros., it should be endorsed first Brown Bros., and then Brown Bros. & Co.

Checks should be deposited or cashed promptly. You have

only until the next succeeding business day in which to collect, or deposit for collection, any check. If you hold a check longer than forty-eight hours, and the bank on which it is drawn should fail in the meantime, you have released the drawer and must take your chances with the other claimants against the bank. For this reason the banks send out all checks deposited with them for collection on the same day, or the next succeeding business day; otherwise they have released both the drawer and the endorsers, if the paying bank should fail or any loss should result by reason of their delay.

Checks drawn on banks in the same town, and which are deposited after the clearing hour, are held over at the depositors' risk, until the next day.

Your Account on the Bank's Books

There is no mystery about bank bookkeeping. It is about the simplest known. The total amount of your deposit is added to the balance you already have in the bank; then the total amount of your checks, that reach your bank that day, is deducted; the result is your balance.

Right here it is well to emphasize that the great majority of the banks *keep no record of the names of the parties, from whom you receive checks which you deposit; nor do they keep any record of the names of the people, to whom you make your checks payable.*

When you deposit a check, the only record generally kept by the banks is the date that you deposited it, the amount, and the town in which it is payable. If it is on a bank in the *same city,* your bank will keep a record of the name of that bank, but not otherwise.

In handling thousands of checks daily, it can be seen what a stupendous task it would be for a bank to keep a complete record of the drawers and *all* the endorsers on every check. Its force of clerks would have to be doubled or trebled.

The bank should not be expected to keep your private memoranda, and it is the duty of the depositor to keep a complete record of the parties, from whom he gets the checks, that he deposits or cashes.

If a check is lost in the mails, the bank has a perfect right, after giving the depositor the amount, the date on which it was

deposited, and the town in which it was payable, to charge the amount to the depositor's account until he furnishes a duplicate of the lost check. So, if you cash a check drawn by John B. Smith, for example, and payable to James A. Jones, and then endorsed by several other parties; it is your duty, and not the bank's, to keep a record of the person from whom you received that check, and obtain a duplicate if it is lost before reaching its destination. Also with all other checks which you deposit or cash.

Many retail firms cash checks for customers; and after endorsing, will deposit them for collection; keeping absolutely no record of the sources from which they received them. For example,—Mrs. Brown, of St. Louis, receives a check from her son in Cincinnati. She gets it cashed at the dry goods store with which she deals. Then the merchant deposits it, with numerous other checks, in his bank for collection. If the check is returned unpaid, the bank certainly has a perfect right to call on the merchant to pay it. The merchant then calls on Mrs. Brown to pay him. Now if that check is lost in the mails, say burned in a railroad wreck, the bank has the same right to call on the merchant for a duplicate. And it is no valid excuse for him to say that he has no record of the person from whom he received it.

In short, each person endorsing a check should keep a record of the person from whom he received it, or for whom he endorsed it.

On the last business day of each month your pass book should be left at the bank, in order that your checks may be entered therein, and returned to you; comparisons made with the bank's ledgers; errors, if any, corrected; and your balance stated in your pass book. Then you should assort your cancelled checks according to the dates or numbers of same, and compare them with the stubs in your check book. This is *very important* in order that you may detect any forged or raised checks and *promptly* inform your bank. If such checks are not reported to the bank in a reasonable time, you will have to stand the loss. The total amount of the checks *not* returned by the bank should be the exact amount of the difference between the balance as shown by your check book and your bank book. For example,—you give a check on the last day of the month; it does not reach your bank until the first, second or third day of the next month. It can not be charged to your account until it does reach your bank; therefore, your pass book will generally show a larger balance than your

check book. The difference is the amount of checks that are out.

Banks do not like to tell the amount of your balance over the telephone. They can not identify you "over the 'phone," and some person, who has no business to know, may be inquiring into your affairs. For the same reason they do not like to state the amount of your balance to any one in person, unless you authorize it. That is a confidential matter between you and the bank, and they make this rule for your protection as much as their own.

Stopping Payment of a Check

If, for any reason, you desire to stop payment on a check; communicate with the paying teller as quickly as possible. Give him a full description of the check, the name of the party to whom it is made payable, the number, the date, and the amount. Then *always* confirm this action in writing. If, after examination of your checks, the bank informs you that this particular one has not been paid, you can safely issue a duplicate, if desired. Inform your bank, however, that you are issuing a duplicate, and write the word "duplicate" across the face of the check.

How the Bank Collects the Checks you Deposit

When your deposit is handed in to the Receiving Teller, he assorts the checks you give him into "foreign" and "clearing" items.

The "foreign" items, that is, checks or drafts on banks in other towns, are then passed on to the route clerk. He, in turn, assorts them so that they may be sent to the banks that will collect them for the least possible cost. For instance, if your bank is situated in the middle West, the checks you deposit on the far West will be sent to a Chicago or St. Louis bank. Checks on Eastern cities, except New York possibly, will be sent to Philadelphia or Baltimore. Checks on nearby towns probably will be sent direct to banks in those towns. The reason for not sending checks direct to the towns on which they are drawn, is, that often they can be collected much more cheaply by sending them through other large cities.

The less expense your bank incurs in collecting, the less it will have to charge you. The depositor should understand, that the bank's charges for these collections are figured at about cost.

Also, that there is very little, if any, profit in these collection, or "exchange" charges. Whatever the bank charges you for collecting is *credited* to its "Exchange Account;" but what the bank at the other end charges your bank for sending back the money, or remitting its check on one of the large cities, must be *charged* to its "Exchange Account."

It is a fact that an examination of this account on the books of any city bank almost invariably will show that it is a source of loss rather than profit. In other words, the city banks really charge their depositors less than it actually costs for collections on other towns.

The "clearing" items, that is, checks on banks in your own town, are passed to the Clearing House clerks. The collection of these checks through the Clearing House, and the operation of that institution, are next explained.

The Clearing House

The Clearing House is simply a meeting room for the convenience of the different banks in a city; a place in which to swap checks. Small towns have none. This meeting room is arranged almost exactly like the ordinary school room. There is a desk on a platform for the manager, also desks in rows on the floor, one desk for each bank. Ordinarily no figuring is done here except addition and subtraction. Its operation is simple.

Suppose you owe Brown $10.00, and you owe Jones $5.00.

Then suppose Brown owes you $5.00, and owes Jones $4.00.

Then suppose Jones owes you $3.00, and owes Brown $5.00.

Now, instead of each of you going around to two other places, you three meet in a certain conveniently located room to square. or clear up, accounts. This saves time and steps. A clerk is in this room to do the sums for you.

With a little addition and subtraction he has the following:

You owe Brown and Jones together	$15 00
Brown and Jones together owe you	8 00
Therefore, you owe Brown and Jones together	$7 00
You and Jones together owe Brown	$15 00
Brown owes you and Jones together	9 00
Therefore, you and Jones together owe Brown	$6 00

You and Brown together owe Jones	$9 00
Jones owes you and Brown together	8 00
Therefore, you and Brown together owe Jones	$1 00

The clerk then announces that you owe $7.00 here; Mr. Brown is entitled to receive $6.00, and Mr. Jones is entitled to $1.00. Then he gives Mr. Brown an order on you for $6.00, and Mr. Jones an order for $1.00. Nothing complex about this if you know how to add and subtract.

Now just substitute for your name, the First National Bank; for Brown's, the Second National Bank; for Jones', the Third National Bank. Then put the figures up into the thousands or hundreds of thousands of dollars in place of the small ones given above. Then name the room where you met, the Clearing House, and call the clerk who did the sums, the Clearing House Manager. Then call the orders he has given, the Clearing House Manager's checks. No matter how many banks in any one city, or how large the figures, this simple method of settling is in operation daily.

Say there are twenty banks in your city. Your bank receives through the mails, and from its local depositors, numbers of checks on the other nineteen banks in the same town. The clerk, who goes to the Clearing House, and his assistants assort these checks into nineteen different piles. Each bank goes by a number at the Clearing House. Then these Checks are stamped on the back about like this—"Paid through the ——— Clearing House;" then follows the date, and name, and number of the bank which sends them. These nineteen piles of checks are added up into nineteen different totals; the checks on each bank being kept in separate bundles. The nineteen totals are added into one grand total. The clerk then starts for the Clearing House with nineteen bundles of checks; and a sheet which shows how much his bank has against each of the other banks; and the grand total it has against all the other banks combined. Therefore, at a certain hour, generally noon, on each day, twenty clerks, one from each bank, meet at the Clearing House. Each one takes his stand at his desk. When the manager taps the bell, every clerk makes the round of all the other desks, and leaves the bundle of checks he has against each bank with a slip showing the total amount of the package. When this is over, each desk has nineteen

bundles of checks on it and nineteen slips showing the different totals.

Each clerk then adds up these nineteen totals, and the grand total resulting shows what all the other banks have against his bank. He then reports two amounts to the Manager of the Clearing House,—the grand total of the checks he has brought in, and the grand total of the checks which have been brought in against him.

Say he has brought in $100,000.00 worth of checks against the other nineteen banks, and they have brought in $90,000.00 worth of checks against his bank. Then his bank has a credit at the Clearing House of $10,000.00.

After the Manager figures up from these totals handed him by the different bank clerks, he finds that certain banks brought more than was brought against them, and that certain other banks brought less than was brought against them. He then issues his checks, signed as Manager of the Clearing House, payable to the banks having a credit. These checks, of course, will be drawn on the banks which brought in less than was brought against them, or on the banks which are debtor to the Clearing House.

Each bank clerk can see readily, from the grand total of what he took to the Clearing House, and the grand total of what was brought against him, whether his bank has "beat" the other combined banks, or whether the other combined banks have "beat" his bank; that is, whether his bank is a creditor of, or debtor to the other banks combined.

All the clerks then leave for their respective banks and turn over the nineteen bundles of checks to the Paying Teller. This Teller has to look at each check and see that the date is all right, the signature is genuine, that no alterations have been made, and that all the endorsements are correct on every one. All these checks are then added up again, to verify the Clearing House Clerk's account, and then are assorted and passed to the individual bookkeepers to be charged up against the different depositors' accounts.

In the meantime, the Manager of the Clearing House has balanced the accounts of the various banks, and has issued his checks. The banks, that have a credit at the Clearing House, send a messenger for the checks payable to them and drawn on the debtor banks.

On receiving these Clearing House checks, the creditor banks

either can collect them in actual cash from the debtor banks; or they can hold them and return to the Clearing House the next day as part of their checks against the other banks. If the creditor banks want to build up their actual holdings of cash, they collect the Clearing House checks; and, if they hold over these checks, they do so at their own risk. If the debtor bank should fail over night, the creditor bank must suffer any loss.

In a few of the cities the Clearing House Manager does not issue his checks, and the banks, after they are informed as to the result of the daily balancing, either settle with each other by buying or selling their checks on other cities, or the debtor banks send the actual cash to the Clearing House to pay the creditor banks.

But while the systems employed at the Clearing Houses of the various cities of the United States may vary in some particulars, they are all founded on the principles stated in the preceding paragraphs. These principles have been so perfected that the clerks from the different banks are at the Clearing House for a few minutes only each day. The Manager imposes a fine of several dollars on the bank for every mistake in calculation its Clearing House clerk makes; also for tardiness. If the bank is more than ten minutes late, it is not only fined, but is "shut out" from the Clearing House for that day. It then has to send its clerk around to each one of the other banks and collect the amount of its checks on each bank.

To return to the checks which have been brought back from the Clearing House. If, on examination, the Paying Teller has discovered any forgeries, or irregular or missing endorsements, or anything suspicious about any checks; or if the bookkeepers have found that any check overdraws the account of the depositor, the bank has only until the close of banking hours to return such checks and collect from the banks that sent them through the Clearing House. So the examination of these checks must be made carefully and very quickly.

The *"Clearing House Association"* in your city is what might be called a Mutual Aid Society, which the banks have organized for purposes of mutual convenience and protection. This Association pays the expenses of the Clearing House; the Manager's salary; the rent; etc. It adopts rules and by-laws and fixes fines and penalties for breaking them. But it is not an incorporated body and can not sue or be sued.

Among other things, it names the rates of interest to be allowed on time deposits and on the daily balances of the country banks; also the charges to be made for collections.

In time of panic, the Association is a tower of strength, not only for the banks themselves, but for the whole community. The associated banks, at such times, have it in their power to make or break the business interests of their city. *But their interests are identical with the interests of their patrons.* Remember the banks are owned by the people, not by two or three private individuals. The failure of any one bank, or of any one business house, increases the panicky feeling. Therefore, the Clearing House Association naturally and from very self-interest, must do its utmost to keep its members and their customers on their feet. In financial storms, the Association may adopt certain rules and regulations which may seem unreasonable to the public; but these methods are put in force for "the greatest good of the greatest number;" not only for the protection of the banks, but of their customers and depositors. It is a time for the public to be as reasonable as possible; to uphold the banks and their officers and directors. It is a time for the public and the banks to come closer together. Rest assured the banks have no desire to see any firm or person fail in times of panic, or any other time. They make their largest dividends when business is brisk and everything is prosperous.

What every Clearing House Association does want to wipe out however, is the dishonest and reckless banker. He is a menace and source of anxiety to every bank in the community. The sooner the other banks can detect and expel him from the business, the better. In some cities, notably Chicago and St. Louis, the Clearing House Association regularly employs expert accountants to make periodical and unexpected examinations of the banks in the Association. If any bank is found to be doing a reckless business and not living up to the rules and regulations of the Clearing House, it is heavily fined or expelled. And expulsion from the Clearing House means ruin for that bank as soon as the business community learns of it. All Clearing House Associations should adopt this strict supervision.

Many a bank was saved embarrassment and possible failure in the recent panic of 1907 by the wise methods put into effect by the Clearing House Associations. Selfishness and enmity were

ordered to the rear. There are always banks whose officers have less foresight and wisdom than others. Some of these had been lending too freely, and their actual cash reserves were not sufficient to meet the storm of checks of their frightened depositors; frightened mainly because of ignorance, for, with a few exceptions, the banks were in good condition. To call in their loans and replenish their supply of cash would cause business failures and add to the panic.

So the Clearing House Associations of the different cities determined that the strong and wise banks should help the weak and foolish ones. Loan Committees were appointed to sit daily at the Clearing House. The various banks brought to this Committee notes they had discounted, or stocks and bonds owned by them. If the Committee thought them good, the Clearing House Association would lend the bank bringing them, up to about 75% of their face value. Of course, the Clearing House Association did not lend these banks actual cash, but they issued them Clearing House certificates, bearing interest, which could be used among the banks in settling daily claims against each other; just as if the banks had deposited actual cash at the Clearing House. In this way if Bank, Number One, had the Clearing House Manager's check on Bank, Number Two for $50,000.00, in settlement of some daily balancing at the Clearing House; Bank, Number Two could pay Bank, Number One, with Clearing House certificates instead of actual cash. In other words, the banks which had a number of good notes, or stocks and bonds, but a small amount of cash, were saved by the combined, unselfish and patriotic action of all the banks working together for the common weal.

Suppose the bankers had been the monsters of selfishness they are sometimes painted? The strong and wise banks would have let the weak and foolish ones fail; and, when the storm had passed, there would have been fewer banks in existence and the strong ones would have had that many more depositors and that much more business, with less competition. If the public generally knew of the many instances of generosity and unselfishness that were shown in the Clearing Houses in this and other panics, the banks, as a class, would not be denounced and condemned as they sometimes are. And this unselfishness was not exercised by the banks for the salvation of the banks alone, but for the business interests of the whole community as well; for,

as has been pointed out, *the interests of the banks and the people are one.*

A Certified Check

Your check is nothing but a piece of paper on which is written an order on your bank to pay some one a certain sum. Strangers might not like to accept this piece of paper in payment of debts due them. In many cases your check should be "certified."

When a depositor presents a check to his bank to be certified, it should be handed to the Paying Teller. He, in turn, hands it to the individual bookkeeper having charge of that depositor's account. If the bookkeeper finds the balance sufficient to cover the amount of the check, he stamps across its face the words "Good for $——— (the sum named in the check) when properly endorsed." Then the Teller or some officer of the bank, signs that statement and the amount of the check is immediately charged to that depositor. In other words, the bank guarantees or certifies that your check is good.

The bank must be very particular about certifying a check. If any officer or employe of a National Bank certifies a check, which calls for more than the maker of the check *actually* has to his credit, such officer, or employe, has committed a penitentiary offense. This provision of the National Banking Act is most strictly enforced, and the penalty is severe.

When certification is necessary, the maker of the check should be the one to have it certified. If you take Brown's check to his bank and have it certified, you release Brown entirely and can only hold the bank. For example,—a man sold a piece of land, and, on delivering the deed, took the purchaser's uncertified check. After the purchaser had left with the deed, the seller, thinking the check might not be good, had it certified. The bank failed that afternoon. The purchaser proved that he had more than the amount of the check to his credit on the bank's books. On consultation with his lawyers, the seller found that he had no claim on the drawer of that check and could only file his claim against the bank with its other depositors. And he only received about fifty cents on the dollar when the bank's affairs were finally wound up. All because he did not insist on the purchaser of the land having his own check certified. If he had done this he could have held both the purchaser and the bank.

By having your check certified, you practically exchange your check for one guaranteed by the bank. For example,—the bank certifies your check for $100.00. It immediately *charges* your account with the $100.00, and *credits* its "certified check account" with $100.00. Then when your certified check comes back to the bank, through the person to whom you delivered it, the bank *charges* its "certified check account" with $100.00, and the transaction is closed.

Therefore, if, for any reason, you decide not to use a check after you have had it certified, *do not destroy it as you would an uncertified check.* Be sure to bring it back to the bank so that the amount may be *credited* your account, and be *charged* to the bank's "certified check account."

Otherwise your account will remain charged with the amount and your balance will show that much less.

Protesting Notes, Drafts, etc. Why necessary and how it is Executed

Protesting notes, drafts, checks, or other commercial paper is simply warning or giving notice to people, *secondarily* liable on that paper, that it has not been paid when due. The person who ought to pay the paper is *primarily* liable. All other persons, who have endorsed the paper or drawn it on another person, firm or bank are *secondarily* liable.

You have endorsed Brown's note. Brown does not pay it when due. If you do not receive a prompt notice of this, you might endorse another note for Brown under the false impression that he had paid the first one.

Likewise, if you have endorsed Jones' draft on his firm, or his check, and his firm, or his bank refuses to pay such draft or check, both you and Jones should receive prompt notice that payment was refused. With such notice you would not endorse for Jones a second time unless he made good to you, and explained matters satisfactorily. If Jones was honest in drawing his draft or check he is entitled to prompt notice of non-payment so that he can take immediate steps to get his money. Possibly his firm is embarrassed financially, or his bank has failed.

Say Smith & Co. have drawn a draft on a customer and have taken it to a bank and secured the money on it. If the customer refuses to pay the draft, the bank wants prompt notice so it can

collect from Smith & Co. And Smith & Co. want prompt notice so they can take legal steps at once to protect themselves, and probably stop further shipments to this customer. Various other instances might be given where endorsers or drawers of paper might suffer loss or damage from lack of notice of its non-payment.

The law holds that this giving of notice is of such grave importance, that, if the bank receiving paper for collection does not promptly notify all persons, *secondarily liable,* of non-payment, all such persons are released from obligation, and the collecting bank must take its chances on making the amount from the payer. This statement must be qualified to this extent. If a *check* is not protested, the maker of the check must *prove* that he has suffered loss by not receiving notice of non-payment. But the drawer of a draft, or the endorsers on any check, draft, or note are released, whether they suffer damage or not. Generally speaking, a check is a written request of a depositor to his bank to pay a certain sum to a certain party; whereas a draft is a written request of any one to a firm or individual, to pay a certain sum to a certain party.

Of course, if the bank receives orders from the parties sending them, *not* to protest certain notes, checks, or drafts, it must obey these orders. But if no such instructions accompany the paper, the bank *must* protest or make itself liable.

Every bank of any size has one of its employes appointed a Notary, or it can employ a Notary on the outside. He is an officer appointed by the State, and is under bond to the State to perform all his duties according to law.

When the bank hands protestable paper to a Notary, it is his duty to make a formal demand at the proper place on the person who should pay it. If payment is refused, the Notary makes an exact copy of the note, draft or check at the top of a printed form used for this purpose. Then, over his signature as a Notary, accompanied by his official seal, he states that he has made a demand in person for payment of the paper described by him; and, on payment being refused, he has "protested" the non-payment. Also that he has mailed or delivered notices of this non-payment to all the parties secondarily liable on this paper and states their names. The Notary's official statement is called the "Instrument of Protest." The notices he mails are called the "Notices of Protest." Certain fees are allowed the Notary by

law for protesting. These are called "Protest Fees," and become a part of the debt.

Of course, the person who ought to have paid the paper gets no "Notice of Protest." He certainly knows if he has not paid. The Notary must keep a copy of all his "Instruments of Protest." This is a public record, just as any court record is, and as accessible to the public. It is rarely examined however.

So, from the language prescribed by law, that the Notary uses in his "Instrument of Protest" comes the common use of the terms "protest" and "no protest" paper.

To bind the parties *secondarily* liable a Notary can protest paper only on the *exact* day it is due. Otherwise he might put it off several days, or demand payment before it was due, and damage might result in either case. So, if the protesting is not done on the exact date when the paper is due, it is of no avail.

The maturity of a draft reading so many days, or months, after *date* must be calculated from the date of the draft itself. But the maturity of a draft reading so many days, or months, after *sight* must be calculated from the date it was presented to the sight of the payer and accepted. It is very necessary to date acceptances of time drafts reading "after sight."

Demand for payment must be made at the proper place during business hours. A check of course is payable at the bank on which it is drawn, during banking hours. A draft on a firm is payable at its office; likewise a draft on an individual is payable at his office, or if he has none, then at his residence. Notes or accepted drafts are payable at the place stated on their face. But, when no place of payment is stated, demand for payment must be made at the office of the maker of the note, or the acceptor of the draft; or if he has no office, then at his residence. When you draw up a note it is the proper thing to state on its face "payable at ——— bank" (giving the name of your bank); or "payable at my office;" or "payable at my residence."

Likewise, when accepting a draft, write the date, then "accepted, payable at ——— " (stating your bank, office, or residence) across the face of the draft over your signature. Therefore when a note, or an accepted draft is made payable at a certain bank, demand for payment *must* be made at that bank, and *not* on the maker of the note, or the acceptor of the draft. Most notes and accepted drafts are made payable at the bank of the payer. All of them should be. Then the payer should give

his bank instructions to pay his notes and acceptances when presented, just as it pays his checks. In this way, if you keep money enough in your bank to meet your notes and acceptances, just as you keep money there to meet your checks, the bank will save you all worry about their payment in case you or your bookkeeper overlook them. Under such circumstances your paper would never be protested.

In accepting a note from a customer, *do not have it made payable at your bank.* Have the drawer make it payable *in his own town and at his own bank.* Demand for payment must be made at the exact place stated in the note. As every business man is particular about protecting his credit in his own town, and *especially* at his own bank, it is obvious that he will be most diligent about providing for the payment of paper, made payable at the bank with which he is doing business.

Notes and accepted drafts should be sent, a week or two in advance of their maturity, to the town in which they are made payable. If paper, made payable at New Orleans, for instance, is not in New Orleans *when due,* proper demand for payment can not be made and the drawers or endorsers might be released.

There is absolutely no law requiring a bank to send you a notice that it holds your note, or draft accepted by you, for collection and due at some future date. It is customary in some cities for banks to send such notices, but it is only a courtesy. It is *your* duty to keep account of when your paper is due, and to have funds at the place of payment when it is due. The banks that do so are very careful about sending out these notices, but the public should regard it as a favor shown them and not as their lawful right. Many people do not know or appreciate this fact. You should always put your street address just below your signature on a note so that notice can be addressed properly. Also, in drawing a draft, always put the name of the person or firm, on which it is drawn, in the lower left hand corner, and *invariably* state the street address.

The Local Collection Department

A bank has a perfect right to refuse to accept and to return any checks, notes, drafts, etc., sent it for collection. But if it does accept them, it must obey the instructions of the sender, literally and exactly. The bank has absolutely no right to dis-

regard these instructions, no matter how obnoxious or disagreeable they may seem to the payer of the paper.

Many people regard all collectors as offensive and unwelcome. They wish to take their own time about paying their debts. Please mark this difference between the collector of your grocer's or druggist's bill, and the city bank as a collector of your note, or of a draft on you. The monthly collector must turn in cash for the majority of the bills given him or lose his position. But it really makes little difference to the bank whether you refuse or pay the note or draft that some other bank has sent it.

The First National Bank in your city, for instance, receives *most* of the paper, sent it for collection, from banks in other cities with which it keeps an account. These are called correspondent banks. The First National Bank agrees to do all this collecting for nothing, and its correspondent banks in turn collect for the First National Bank, in their cities, for nothing. So, in the majority of cases, the bank receives nothing and loses nothing in the event of payment or non-payment of items on you.

When collections are sent to a bank direct by firms, or by banks in another city, that do not keep an account with it; the collecting bank makes small fees, but these fees are very insignificant.

So, by prompt payment of notes and drafts, you are conferring more of a favor on yourself than on the bank. It is wise to protect your credit with strange banks as well as your own. Every bank receives many confidential inquiries concerning the financial standing of firms and persons in its city. If not personally known to the officer in charge of this correspondence, he invariably inquires of the collection department as to the promptness with which the parties in question meet their notes and drafts. And even though you are not a patron, a bank in your own city would rather give you a good financial reputation than a poor one.

The collecting bank must regard most carefully the instructions of the sender, especially about protesting or not protesting. Also about telegraphing payment or non-payment, and whether to hold the paper after it is due or not. In no case must it surrender any documents attached to a draft until the draft is paid, or accepted; and, in case of acceptance, documents attached must not be surrendered unless the sender so directs.

When drafts have Bills of Lading attached, and the draft states on its face that it is payable on arrival of the goods, the

bank can hold it until the goods arrive; but if the draft calls for payment on presentation, even though it has a Bill of Lading attached, the bank holding it, until the arrival of the goods, does so at its own risk. As has been stated, and it can't be stated too forcibly, the presenting bank has no option and must obey orders to the letter. If it does not, it must suffer any resulting loss. It is only an agent and can not regard the wishes of the payer.

Another point you should bear in mind. The bank must not only pay strict attention to the instructions of the sender of the collection, but it must follow the law. In self protection a bank must keep itself informed about the laws regarding collections and any changes in these laws.

If a bank accepts anything but the actual cash in payment of a collection, it does so at its own risk, and not at the risk of the sender. For instance, a bank has a draft on Smith, or holds Smith's note for collection. Smith offers his check in payment. If the check turns out "no good" the bank must recover the paper immediately, and any document which might have been attached; otherwise the sender can hold the bank for the amount. Therefore, when you tender your check to a bank in payment for collections, you are asking them to take a risk. If you are not well known in the bank, it is only a reasonable request for the bank to ask you to have your check certified. Don't ask the bank to have it certified; for, as has been explained in the remarks on "Certified Checks," the bank by so doing would release you, and could hold only the paying bank. You might just as well ask a strange bank to *cash* your check as to offer it your uncertified check for a collection on you. You would hardly cash a check for a stranger. Why should the bank take an equal risk for you? Yet nothing seems to rouse the ire of the average man more, than for the collection clerk to ask him to have his check certified.

It is a well-nigh universal rule in all Clearing House Associations, that the banks, which are members thereof, shall not collect checks on each other before the daily hour for meeting. Also it is a general custom not to collect from each other, checks, that are deposited, or taken in payment for paper due, after that hour. Hence, when a bank accepts uncertified checks in payment before the clearing hour, it will know before closing time whether such checks are good. But, if a bank accepts an uncertified check in payment after the clearing hour, either, it must

have it certified, and thereby release the drawer; or, it must hold it until the next day at its own risk. The banks always respect the man, who has his check certified, if tendered after the clearing hour.

For these same reasons you can see why a bank can not take a check on a bank in some other town in payment of a collection. It then would be several days before the bank would know whether the check was good or not. Also the bank would be out that amount of money for the length of time it takes to collect that check; for every bank must remit to the sender on the very day it puts its "Paid" stamp on a collection and delivers it to the payer.

Therefore, when a bank notifies you that it holds your note, or a draft drawn on you, for collection, bear in mind four points. First: the bank must follow the instructions of the sender or owner of the paper. Second: it can not disregard the law. Third: you are benefitting yourself more than the bank by paying your paper promptly. Fourth: the bank is taking a risk every time it accepts anything other than actual cash for a collection.

The collecting bank can not consider the instructions of any one but the bank or persons from whom it receives the item. For instance, you live in St. Louis, and have sent your note to Brown & Co. of Bridgeport, Conn. Brown & Co. discount your note with their bank, or give it to their bank for collection. Before it is due the Bridgeport bank forwards this note to a Philadelphia bank, which in turn forwards it to a St. Louis bank. You are duly notified by the St. Louis bank. For various reasons you may not wish to pay. In that event, positively the only way to have this note recalled is for you to communicate with Brown & Co. Then they must request its recall by the Bridgeport bank, which in turn instructs the Philadelphia bank. Then that bank instructs the St. Louis bank to return the note. In other words, all instructions must come through the same channels by which the note was originally sent. Bear in mind that you are not the owner of this paper, nor is the bank which receives it for collection.

When a draft has the words "with exchange" on its face the drawer is asking the payer, not only to pay the amount of the draft, but also the bank charges for collecting. Unless the presenting bank has instructions to collect this exchange or return

the draft, it can accept the amount of the draft and deduct its charges when it remits for the collection. So don't feel resentment toward the bank when it asks you to pay collection charges. Many people do. But the bank is only following instructions and cares nothing whether you, or the fellow at the other end, pays the cost.

Because it is human nature to object to paying out money, the Local Collection Department is the recipient of more complaints and unreasonable requests than any other department of the bank. Any number of actual happenings could be set down here, but a few examples will prove the truth of this statement.

A bank received Brown's note for collection and sent him a notice to that effect. The note was made payable at Brown's bank and orders were to protest if not paid. On the day it was due Brown did not appear. The collecting bank telephoned Brown's bank and was informed that it had no instructions to pay his notes. Right there the collecting bank could have ceased its efforts to collect, and could have handed the note to its Notary for protest. But in a spirit of kindness and courtesy to Brown, the bank telephoned him half an hour before closing time, asking him if he had not overlooked this note. Then Brown was mad. Said he had received no notice. That this was a nice time to be notifying him. The bank told him they had mailed him a notice, and Brown wanted to know how they could prove it. Then he was informed that the bank was not required by law to send him a notice, and that all he had to do, to avoid protest, was to instruct his bank to pay. By this time however, Brown was so unreasonably angry that the bank's clerk, in self respect, hung up the telephone to shut off the torrent of abuse. And all because the bank had tried to show extra consideration. Brown had sense enough to instruct his bank to pay that note, but he has never ceased to denounce the collecting bank for what he terms its unreasonable, overbearing treatment of him.

A bank received a draft drawn on Jones. The orders were to protest if not paid. On presentation at his office Jones informs the bank that he does not think the draft is correct, and asks them to hold it until he can communicate with the drawer. The bank tells him it will have to protest if not paid that day. Jones insists that the bank can hold it. Among other things he says, that if he pays more than is really due the drawer of the draft, he may have trouble in recovering the excess; but he does not

want the draft protested. The bank patiently explains to Jones that it will make itself liable if it does not protest. Then Jones becomes angry, and declares the bank extremely arbitrary. All because it would not take a risk that Jones himself did not want to assume.

A bank received a draft on Smith with instructions to telegraph if not paid on presentation. Attached to the draft was a bill of lading for a carload of wheat. On presentation Smith wanted the draft held until the arrival of the car; so that he could examine the contents and be sure they were what he bought. But he did not want the firm, who drew the draft, to think that he would question their shipments. So he insisted that the bank should be accommodating enough to overlook its instructions. When the bank declined Smith became angry. He did not stop to reason it out that the bank, that sent the draft, probably had given the drawers the cash on it. And that the drawers might be unreliable and their bank might want to stop advancing cash on their drafts, if any were unpaid on presentation. Or that the drawers might want to stop shipping to Smith if he does not pay promptly. Many reasons may exist for these instructions to "telegraph if not paid." And the collecting bank will be liable for any damage resulting from its disregard of these instructions. But Smith will not see why the bank should not relieve him of an embarrassing situation. And the bank was not making one cent out of this collection.

Now the law says that banks shall keep open *during certain hours* on every business day, which is not a legal holiday. After the closing hour there is a tremendous amount of work to be done. The tellers must balance their cash; the bookkeepers must take off a balance of every account on their particular set of books; and every check and draft deposited, or received through the mails, and payable in other towns, must be listed and forwarded for collection. Nothing can be held over without risk, no matter how heavy the day's work. The rule in every bank is to clean up all the work on the very day it is received. None of this daily balancing of cash, or books, can be commenced until the last check has been cashed, the last depositor has come in, and the last payer of a collection has settled. For instance, the payment of a single draft or note after banking hours, necessitates the holding open of several sets of books or the erasure and changing of various totals by the bookkeepers. It is a very mis-

taken, but popular, idea that the bank employes practically are through with their duties at the close of banking hours. The fact is, that the usual hours for the employes are from eight till five, and it is no uncommon thing for the clerks and officers to be hard at work many hours after the business houses have closed.

Yet many persons think the bank very disobliging if it refuses to transact business after hours. One unreasonable individual insisted that he had until sundown to pay his note on the day it was due. When the collecting bank told him it would be protested if not paid before the end of banking hours, he became very abusive and wanted to know who gave that bank the power to say how late he could pay. He was politely referred to the law makers, but this did not lessen his resentment against the bank.

The foregoing are statements of actual daily occurrences and are only fair samples of the injustice with which many persons treat the banks. And it is mainly the result of ignorance of the laws and customs, which the banks *must* obey.

The Loan Department

As a preface to the remarks on this department, the following simple and concise statement is taken, by permission, from that excellent book, "Money and Banking," by Mr. Horace White. (Book II, Chapter 1, page 235, Edition of 1895.)

"FUNCTIONS OF A BANK."

"A bank is a manufactory of credit and a machine of exchange. Mr. H. D. McLeod's analysis of the mechanism of banking is substantially this: A man has $5,000.00 of his own money. He starts a bank. His neighbors deposit $45,000.00 with him. This money becomes the absolute property of the banker. The depositors have simply a right to withdraw an equal amount whenever they like, which right can be enforced by law. The banker owns the money and the depositor has a claim, or right of action, against him for an equal sum. But the depositors will not draw the money out immediately; if they had intended to do so, they would not have deposited it at all. The banker finds by experience that some of his customers will deposit as much money as

others draw out, so that $50,000.00 is on hand all the time. He concludes that if his own $5,000 in connection with his good reputation, is considered by the public a guarantee for $45,000.00, then the whole $50,000.00 will serve as a guarantee for at least $200,000. When he begins, his balance sheet reads in this way:

LIABILITIES.		ASSETS.	
Deposits	$45,000.00	Cash	$50,000.00

He now begins to discount the commercial paper of his customers running say ninety days at 6%. When he discounts a bill of exchange for $1,000.00, he deducts the interest for ninety days ($15.00) and credits the customer the remainder ($985.00) on his books. This $985.00 is called a deposit, because the customer has the right to draw it out by his check exactly as he could draw out an equal sum of gold deposited by him in the same bank. In the eye of the banker, and of the customer, and of the law, it is a deposit. In ordinary times it is like any other deposit. That is, the proportion remaining uncalled for at any time will be about the same as the proportion of actual money deposited. Yet it is nothing but a bank credit. Hence the word deposit, when thus used, is clearly a misnomer, since, by derivation and common understanding, a deposit means a thing laid away, or given in charge of somebody. It must be borne in mind, therefore, that bank deposits consist of two different things, namely, (1) money, (2) bank credits, and that the latter may be four or five times as large as the former.

The process continues till the banker has $200,000.00 of discounted bills in his portfolio. Then his accounts stand thus,—

LIABILITIES.		ASSETS.	
Deposits	$242,000.00	Cash	$50,000.00
Profit	3,000.00	Loans & Discounts	200,000.00
	$245,000.00		$250,000.00

This is Mr. McLeod's exposition and it is the correct one. It follows that the banker has manufactured something which serves as a medium of exchange to the extent of nearly $200,000.00. This something is credit. Goods can be bought and sold with it as readily as with money, since the checks drawn against

these deposits are universally accepted. The whole $200,000.00 of bills are not discounted in a lump, but gradually, so that some are always maturing and bringing money in to meet the checks of customers, in an endless chain of deposits and discounts. It is found in practice that $200,000.00 of loans and discounts may be easily carried on $50,000.00 of cash. Thus, the loans of all the National banks in the United States in October, 1894, were $2,000,000,000.00, and their cash (including silver certificates and silver dollars) was a trifle less than $400,000,000.00, or only one-fifth of the amount of the loans. The other four-fifths was credit, and perfectly sound credit too, for it had passed through one of the severest panics in our history."

The foregoing quotation is an unanswerable argument for the need of banks as manufacturers of credit in every community. The greater the banking capital in any section, the easier it will be for the people of that section to carry on and enlarge their business.

The Loan Department is not only the most important, but it is the money-making end of the bank. If it makes no loans it will pay no dividends. If, on the other hand, it makes bad loans, it will go out of existence.

It can be understood readily that the successful bank officer, whose duty it is to accept or reject loans, must be a person of large experience and wide knowledge of men and affairs. He must be an excellent judge of human nature. Not too conservative, nor yet too venturesome. He must be a constant student of financial conditions; and must expand or contract his loans as the sea of finance is placid or stormy. His responsibility is great. He must lend, but he must lend judiciously, millions of other people's money. He can not allow feelings of personal friendship to warp his judgment. He must be thoroughly familiar with the laws concerning the making and the collection of notes.

In an address to the National Banks in 1863, the Hon. Hugh McCulloch, the first Comptroller of the Currency, gave this sound advice:

"Do nothing to foster and encourage speculation. Give facilities only to prudent and legitimate transactions. Distribute your loans rather than concentrate them in a few hands. Pursue a straightforward, upright, legitimate banking business. Treat your customers liberally, bearing in mind that a bank prospers as its customers prosper."

In lending, the bank should encourage the *business interests* of its community and should discourage speculation.

If every one, before asking a loan, would put this question to himself, "Would I take this risk," his banker would be saved much embarrassment. On the other hand, if you know your security is good, there is no reason why you should feel any degree of awe or nervousness in offering your own or your customers' notes. That is what the bank is in business for, and your proposition, if not made for purposes of reckless speculation, is welcomed in ordinary times.

Bear in mind, however, that your banker may, at times, have to refuse your paper, because he has seen clouds on the financial horizon of which the average person is ignorant, and he is endeavoring to protect, not only his stockholders, but his patrons, from the storms that are imminent. It is advisable for you to consider his views carefully, and probably to curtail business expansion.

Your average balance on the bank's books has a great deal to do with the amount of the loans, no matter how well secured, that you can ask reasonably.

Every bank has a number of customers who expect to be taken care of in the loan department. But, if all the bank's patrons are borrowers, it soon will have loaned out all of its funds. The bank must have depositors also. While some depositors do not ask for loans, experience has shown that the proportion of a customer's balance to his loans must be sustained in order to keep the bank adjusted. In New York the banks generally require a regular customer to keep an average balance of not less than twenty per cent. of the loans made him. Most interior banks consider ten per cent. about the right proportion. For example, in the interior cities, if your account shows an average balance of $200.00, you can reasonably request loans, properly secured, of $2,000.00. An average balance of $1,000 should entitle the depositor to loans of $10,000.00 and so on. Experience proves that if the banker does not keep this important point in mind, his machinery will be "out of gear."

Speaking generally, it will pay any concern to *borrow* money, if necessary, to show a fair balance to its credit. Bankers are only human, and all business is selfish. Every bank will be disposed to take care of its best paying customers first in times of financial storms. Every merchant looks out for his best customers first. Why not a banker? When a firm attempts to hold its bank

down to the last cent of profit, keeps no balance to speak of, and subjects the bank to endless expense in the collection of its checks and drafts, it can not reasonably expect as liberal treatment in "squally times" as the concern which pursues the broader policy of "live and let live."

Some firms, if they would figure it out, could see plainly that the bank was handling their account at a loss; yet, they think they are conferring a great favor in placing their business with any bank.

A large concern was pursuing this narrow policy. Among other things it made a practice of borrowing large sums in other cities at four or five per cent. when the local rate was six. The recent panic came on. Money advanced to fifty, to one hundred per cent in New York. The local banks were having all they could do to take care of their own good customers. The result was that this firm came to the verge of an assignment. And, if it had not happened that the banks of its city did generously come to its rescue, it would have collapsed.

It is well to remember, that, while the rates of interest in New York are temptingly low at times, they fluctuate violently and often without warning; also that the bankers in a strange city have no personal interest or local pride in your success or failure.

Money is only a commodity, and rates of interest are governed by supply and demand. Now the *supply* of money in the New York banks varies tremendously, by millions of dollars in fact. This variation comes from many causes. On the other hand, the *demand* for money in New York is constantly changing. The reasons for this are manifold. But in the smaller cities, both the supply and demand are much more uniform and steady. Hence the rates of interest, outside of New York, are much less liable to change. Therefore, unless the demands of your business exceed the banking facilities of your town, it is *very* advisable for you to confine your loans to the local banks.

The loan department is restricted by certain laws, just as the other departments. State and Savings Banks, and Trust Companies must obey the laws of their particular State, but any bank having the word "National" as part of its name, or the letters "N. A." (National Association), or the letters "N. B. A." (National Banking Association) following its name, must adhere strictly to the provisions of the National Bank Act. The Congress of the United States has forbidden the use of the word "National"

as part of the name of any Bank or Trust Company which does not comply with all of the sections of the National Bank Act.

As the statutes differ in each of the separate States, only the laws governing National Banks will be considered here.

The whole spirit of the National Bank Act in relation to loans is to prevent the advancing of money on anything but "quick assets." In other words, loans must not be made on any security, that can not be turned into money quickly. For this reason a National Bank can not lend on real estate as a security. Also it should not accept notes having longer than ninety days or four months to run. The fundamental principle of the law is the guarding of the depositors' money; to have it ready for them at all times. But the *whole fabric and theory of banking is founded on the fact,* demonstrated by centuries of experience, that at no *one* time do *all* the depositors want to draw *all* their money from *all* the banks. Also that every day some loans are due and can be converted into cash if necessarry.

Payment of demand, or "call," loans can be demanded any day. On time loans, payment can not be asked for until the maturity of the note, the day agreed upon by the bank and the borrower.

On demand, or "call," loans the interest must be paid at the end of every three months, or when the loan is paid. On time loans, the interest, or discount, is paid in advance.

Notes reading one, two, three, or four months after date are due, of course, one, two, three or four months after the date of the notes. But thirty, sixty, or ninety-day paper is not due in one, two, or three months. This is a common error. The exact number of days must be calculated. The following table for determining the maturity, or "due date," of thirty, sixty, or ninety-day paper is herewith given:

TABLE FOR FINDING MATURITY OF NOTES AND DRAFTS
AT 30, 60, AND 90 DAYS

DATED IN MONTH OF	AT 30 DAYS Will be Due Same Date in	AT 60 DAYS Will be Due Same Date in	AT 90 DAYS Will be Due Same Date in
JANUARY	February less 1 day	March plus 1 day	April
FEBRUARY	March plus 2 days	April plus 1 day	May plus 1 day
MARCH	April less 1 day	May less 1 day	June less 2 days
APRIL	May	June less 1 day	July less 1 day
MAY	June less 1 day	July less 1 day	August less 2 days
JUNE	July	August less 1 day	Sept. less 2 days
JULY	August less 1 day	Sept. less 2 days	Oct. less 2 days
AUGUST	September less 1 day	October less 1 day	Nov. less 2 days
SEPTEMBER	October	Nov. less 1 day	Dec. less 1 day
OCTOBER	November less 1 day	Dec. less 1 day	Jan. less 2 days
NOVEMBER	December	January less 1 day	Feb. less 2 days
DECEMBER	January less 1 day	Feb. less 2 days	March

EXAMPLE.—Paper dated March 15th at 90 days is due June 13th.

TO PROVE.—Exclude day of date, then 16 days in March, plus 30 days in April, 31 days in May, 13 days in June equals 90 days.

Paper apparently due, from this table, on February 30th, is, of course, due March 2d, or apparently due April 31st, is, of course due May 1st.

In Leap Year allowance must be made for 29 days in February.

For paper payable in States allowing grace use table, then add days of grace.

National Banks can lend only a certain proportion of their deposits.

In New York, Chicago, and St. Louis, called Central Reserve Cities, National Banks must keep on hand, in lawful money, a reserve of twenty-five per cent. of their deposits.

In Albany, Baltimore, Boston, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, Philadelphia, Pittsburg, San Francisco and Washington, called *Reserve Cities,* the National Banks must have the same reserve of twenty-five per cent. of their deposits. But the National Banks in these last-named thirteen cities can keep one-half of *their* reserve in National Banks located in any of the three Central Reserve Cities, viz.: New York, Chicago and St. Louis.

In all other cities or towns the National Banks must have a reserve of fifteen per cent, of their deposits, but nine per cent. of *their* reserve can be kept in National Banks located in any of the thirteen "Reserve Cities;" or in National Banks in the three Central Reserve Cities.

"Approved Reserve Agents" are the banks of the larger cities, selected by the banks of smaller cities or towns, in which to carry part of their reserve. These selections *must* be approved by the Comptroller of the Currency, the executive head of the National Banking System.

A National Bank is forbidden to lend more than ten per cent. of its combined capital and surplus to any one firm or individual. "But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed." Also no National Bank can lend on its own stock as security.

The Comptroller of the Currency can have an examination made, as often as he may deem proper, of the condition of any National Bank. The visits of the National Bank Examiners are never announced in advance. They come suddenly and without warning. Their duties are not only to balance the books and count the cash, but also *critically to examine each loan and its security;* and to give especial attention to loans to any director or officer, and to any concerns in which they may be financially interested.

If the bank is overloaned, that is, has loaned more than the law allows, the examiner immediately reports it, and the Comptroller of the Currency orders that bank to cease lending, and to require payment of enough of its loans to make good the reserve required by law. And if the bank does not court disaster and the closing of its doors, it hastens to obey orders and to "get in line."

The supervision of the National Banks is not perfunctory or careless. It is very strict.

The inquisitorial powers of the National Bank Examiners are practically unlimited. They have a legal right to put any bank officer on oath in questioning the affairs of the bank. They look into every department in the most searching way, and any disobedience of the law is reported promptly to the Comptroller. These Examiners are appointed by the United States Government; and if they want to hold their positions, they must be strictly impartial in their reports to the authorities.

The provisions of the National Bank Act have been so rigidly enforced, *that in forty-four years, or since the Act was passed by Congress, the average annual loss to depositors in National Banks,*

has been only thirty-seven one thousandths part of one per cent. of their deposits. Practically no loss at all.

Isn't that a tribute to the wisdom of that law; to the strict supervision of the Government; and to the honesty and integrity of the officers of National Banks; past and present? It has happened, of course, that some spoilers have occasionally obtained control of a National Bank, and have dishonestly used the depositors' money in risky ventures for their own profit. But the officials of the Treasury Department have soon sized them up, and such men shortly find the banking business not to their liking, especially with "Uncle Sam" as a supervisor.

The Analysis of a Bank's Published Statement

Few people know how to determine the strength, or weakness, of a bank from its published statement. The stockholders and depositors of any certain bank should watch for these statements and critically examine them.

Every National Bank *must* make not less than five reports of condition during each year, to the Comptroller of the Currency.

The requests for these reports come without warning, and at no particular time. Notices are sent on the same day to every National Bank in the United States; and on receipt, each National Bank, within five days must send in an exact report of its condition at the close of business on a certain *past* date fixed by the Comptroller. This report must be sworn to by the President, or Cashier, of the bank; and attested by the signature of three of its directors. Moreover, the bank must publish a copy of this report in some newspaper in its own town; "or if there is no newspaper in the place, then in one published nearest thereto in the same county." Then proof of such publication must be furnished the Comptroller.

An example of a National Bank Statement is herewith given.

REPORT OF THE CONDITION OF

The_____, at_____

in the State of_____, at the close of business,_____, 190__

RESOURCES.		*DOLLARS.*
Loans and discounts		$1,890,506.56
Overdrafts secured and unsecured		5,549.52
U. S. Bonds to secure circulation 2%		800,000.00
U. S. Bonds to secure U. S. Deposits 4%		400,000.00
Other Bonds to secure U. S. Deposits		437,095.55
U. S. Bonds on hand		----------
Premiums on U. S. Bonds 4%		30,000.00
Bonds, securities, etc		907,077.61
Banking house, furniture and fixtures		100,000.00
Other real estate owned		----------
Due from National Banks (not reserve agents)	$600,554.31	
Due from State Banks and Bankers	348,032.09	
Due from approved reserve agents	400,050.42	
Checks and other cash items	865.62	
Exchanges for Clearing House	8,703.74	
Notes of other National Banks	19,455.00	
Fractional paper currency, nickels and cents	391.70	
Lawful Money Reserve in Bank, viz.:		
Specie	257,531.50	
Legal-tender notes	80,000.00	
Redemption fund with U. S. Treasurer (5% of Circulation)	40,000.00	
Due from U. S. Treasurer other than 5% redemption fund	2,666.66	1,758,251.04
Total		$6,328,480.28

EXAMPLE OF

A National Bank Statement

Continued.

LIABILITIES.		*DOLLARS.*
Capital stock paid in		$1,000,000.00
Surplus fund		200,000.00
Undivided profits, less expenses and taxes paid		2,618.64
National bank notes outstanding		800,000.00
State Bank notes outstanding		----------
Due to other National Banks	$1,744,106.37	
Due to State Banks and Bankers	738,439.16	
Due to Trust Companies and Savings Banks	105,151.74	
Due to approved reserve agents	----------	
Dividends unpaid	888.00	
Individual deposits subject to check	919,969.29	
Time certificates of deposit	426,465.22	
Demand certificates of deposit	----------	
Certified checks	4,224.42	
Cashier's checks outstanding	24,500.36	
United States deposits	362,117.08	4,325,861.64
Deposits of U. S. disbursing officers		----------
Bonds borrowed		----------
Notes and bills rediscounted		----------
Bills payable, including certificates of deposit for money borrowed		----------
Reserved for taxes		----------
Liabilities other than those above stated		----------
Total		$6,328,480.28

In considering a bank statement, the first thing to be calculated is the net amount of deposits on which the bank must keep the required reserve. The United States Deposits are not considered, because United States or other approved bonds must be lodged with the Treasury Department at Washington, to secure them.

To find the net deposits in the foregoing bank statement, the following form is used. (This method of calculation is in use by all National Banks, and from recent information from the Comptroller's office, is correct.)

"ITEMS ON WHICH RESERVE IS TO BE COMPUTED."

"Due *to* National Banks" (Not reserve agents.)	$1,744,106.37		
"Due *to* State Banks and Bankers"	738,439.16		
"Due *to* Trust Co.'s & Savings Banks"	105,151.74		
"Due *to* approved Reserve agents"	0.00	$2,587,697.27	
"LESS"			
"Due *from* National Banks" (Not reserve agents.)	$600,554.31		
"Due *from* State Banks & Bankers"	348,032.09	$948,586.40	$1,639,110.87
"Should the aggregate 'due from' exceed the aggregate 'due to' banks, both items must be omitted from the calculation."		"Dividends unpaid"	888.00
		"Individual deposits"	919,969.29
		"Time certificates of deposit"	426,465.22
		"Demand certificates of deposit"	0.00
		"Certified checks"	4,224.42
		"Cashier's checks outstanding"	24,500.36
		"Deposits of U. S. Disbursing Officers"	0.00
GROSS DEPOSITS			$3,015,158.16
"DEDUCTIONS ALLOWED."			
"Exchanges for Clearing House"		$8,703.74	
"Bills of other National Banks"		19,455.00	
"Due from U. S. Treasurer other than 5% Redemption Fund"		2,666.66	$30,825.40
MAKING NET DEPOSITS			$2,984,332.76

Now the *cash reserve* of this bank, as it is located in one of the thirteen Reserve Cities, should be 12½%, or one-eighth of the amount of its net deposits.

The Cash Reserve of this bank, (and the Cash Reserve of any National Bank must be determined from these three amounts), is the total of the following three items:

"Lawful Money Reserve in Bank, viz.:

"Specie"	$257,531.50
"Legal Tender Notes"	80,000.00
And "Redemption Fund with U. S. Treasurer (5% of circulation)"	40,000.00
Making Total Cash Reserve	$377,531.50

Hence, to find the percentage of cash reserve to net deposits, divide the net deposits, $2,984,332.76 into the amount of total cash reserve, $377,531.50. The result is 12.6 per cent. Therefore, this bank is "in line" on its cash reserve.

Next in order is to compute the percentage of the item, "Due from approved reserve agents," to the net deposits. Divide the net deposits, $2,984,332.76, into the amount "Due from approved reserve agents," $400,050.42. The result is 13.4 per cent. This bank is all right in this respect. Therefore, its total percentage of reserve is 26 per cent.

It should be explained here that the item, "Due from approved reserve agents," means the total amount on deposit, subject to check, in National Banks, approved by the Comptroller, and located in other larger cities. These "approved reserve agents" allow two per cent. interest on these deposits, but the National Bank Act says, *that at least half* of the necessary 25 per cent reserve, of the banks located in the thirteen Reserve Cities, *must* be in their cash reserve. Hence, these banks are not complying with the law if they have, say ten per cent of their reserve on hand, and fifteen per cent. with "approved reserve agents." The authorities are very strict about enforcing this.

An exceedingly strong bank may show frequently from its published statements, that technically it is "out of line" on a particular day. Some very large checks of other banks unexpectedly may have been brought against it on that day, and its cash reduced thereby. For this reason, the bank also furnishes the Comptroller with a statement of its percentage of reserve for the thirty days

preceding the date of his call for a report. So, while the percentage of reserve to deposits is important, it is not the *most* material thing to be considered in judging the strength, or weakness of the bank.

Take this bank, for instance. Regarding reserve, it is fully in line; also in other respects, it is in a very strong condition. Its United States deposits amount to some $362,000.00. To secure these it has over $800,000.00 of bonds deposited with the United States Treasurer. In addition, it has over $900,000.00 of other bonds and securities. Its "Loans and Discounts" are, if anything, too small in proportion to its Capital and Surplus and Deposits; but probably a meagre demand for money at the time this statement was published is the cause. Moreover, within a day or two, by checking on the banks that owe it; or, by telegraphing these banks for currency, it could increase its "Lawful Money Reserve in Bank" by hundreds of thousands. Of course, there are no means by which one can determine that the *"Loans and Discounts"* of a bank are secured properly. In respect to that, you can depend only on the reputation of the bank's officers and directors for wisdom, and prudence, and honor; together with the Government supervision. Also the items, "Bonds, securities, etc.," may be worth the amount stated, or possibly this account may be a "dumping place" for all sorts of worthless securities.

While a National Bank can not lend on real estate, it may have acquired real estate in its efforts to collect some bad debt, and the value of this may be very much overestimated in its published statement. The item, *"Other real estate owned,"* should be carefully considered if the amount is large. As that real estate was obtained in endeavors to collect bad loans, it is reasonable to suppose that, if it was worth the debts for which it was taken, the bank would have sold it. In the great majority of cases, the very fact, that the bank is holding it, is good evidence that it can not now be sold at the figures given in the statement. Of course, it is possible that the value of this real estate may be enhancing rapidly, and that the bank is holding to make a goodly profit in addition to the debt, but this is not often the case. The National Bank Act forbids the holding of any real estate, except the bank building, for a longer period than five years.

The item, *"Bonds borrowed,"* is used only when the bank prefers to borrow, instead of buying bonds to put up as security

for circulation, or United States, or State deposits. Bonds may be selling at a high price, and the bank borrows them, paying the owner a rental of say, two per cent. This is simply a question of business policy, and is nothing to the discredit of the bank.

"Notes and bills rediscounted" is in evidence when the bank has loaned out more money than its own resources justified, and it has had to replenish its funds by endorsing and rediscounting some of the notes of its customers with other banks. In some sections the banking capital is not adequate at all seasons. Take some Southern towns, for instance, when the planters are holding the cotton crop for higher prices. Their notes being perfectly good, the banks try to accommodate them. Under such circumstances the banks of that section must endorse these notes and borrow money on them in larger cities. Hence, when banks are "under rediscount" at certain seasons, it is not proof positive that they are in bad condition. Very good reasons for it may exist in that particular section and at that particular season. But it is well to be watchful of the bank that shows "notes and bills rediscounted" during the entire year.

"Bills payable, including certificates of deposit for money borrowed," is exactly the same thing as the "Bills payable" of any merchant, and means that the bank has borrowed money on a note, or certificate of deposit, and has pledged certain notes of its customers, or stocks and bonds, as security.

The item, *"Reserved for Taxes,"* is used when the bank sets aside a certain sum from its Undivided Profits to meet its taxes. As the Capital, Surplus, and Undivided Profits are taxed, the bank, by putting a sufficient sum into the fund, "Reserved for taxes," can thereby give in that much less to the tax assessor.

So, after all, in considering a bank, you must judge it, not only from its statements of condition, but from the character of its officers and directors.

It is very nearly true that "the men at the head of the bank *are* the bank." Have you selected your bank accordingly?

Banks, other than National, figure their reserves according to the laws of the different States. Only National Bank statements have been considered here. Every man should investigate the banking laws of his own State, especially in regard to supervision and examination by the State authorities, and the reserves required.

New York Exchange

Practically every bank in the United States keeps part of its funds in banks in New York City, the money center of the country. All National Banks are allowed to keep part of their reserve in the National Banks of New York, Chicago and St. Louis, the three Central Reserve Cities. For these reasons checks drawn on banks in these three cities are generally accepted at par, that is, collected without cost to the depositor.

In this connection, the word "exchange" comes from the fact that you *exchange* your personal check for the bank's check on another bank, located in some other city.

In remitting for collections, or for balances due, the banks outside of the three Central Reserve Cities, generally send their checks on one of these cities, according to their location.

Under certain conditions you will notice your local newspapers quoting New York Exchange at so much premium or so much discount. These rates are generally in use only between the different banks in your city. The banks do not charge a depositor any premium for its checks on other cities, unless the amount of the checks called for is large.

The proper way to draw your check when you want New York Exchange, is to make it read "Pay to the order of New York Exchange." The bank then makes out its check on a New York bank payable to your order. Then you should endorse the bank's check to the order of the party to whom you are remitting.

Banks do not like to sell their checks on other banks to strangers. Some expert at raising checks may buy New York Exchange for ten dollars and raise it to ten thousand. Also he might buy the bank's check with the idea of obtaining the Cashier's signature for the purpose of forgery.

The Method of issuing National Bank Notes

Many people have the idea that a National Bank, having a capital of, say one hundred thousand dollars, can call on the United States Treasury Department for an equal amount of National Bank Notes, without expense to the bank; and thus have double the amount of its capital to lend at the start.

The National Bank Act does say that each National Bank *must* issue currency equal to a certain per cent. of its capital; and

further, that each National Bank *can* issue currency equal to the full amount of its capital. But the profit on taking out this currency, or circulating notes, is so very small that many banks do not issue as much as the law allows.

These circulating notes must be issued under certain expensive conditions. First,—the bank must purchase and deposit with the Treasurer of the United States an amount of registered United States Bonds, equal at their par value, to the amount of the circulating notes called for. Second,—dependent on the kind of bonds deposited, the bank must pay a tax on its circulating notes. Third,—the bank must stand the expense of plates for printing and the express charges for sending it the original issue of its notes. Also, when any of its worn out, or mutilated notes are sent to the Treasury Department, they are destroyed, and the bank then has to pay the expense of re-issue and the express charges for sending them to the bank that originally issued them. The signature of the President and Cashier of the bank must be affixed.

Therefore National Banks, in calculating the possible profit on taking out circulating notes, have the following example to be considered in issuing every one hundred thousand dollars of their notes:

Bonds purchased: United States Registered 2% bonds to be paid at par in 1930.

Price of bonds 104	$104,000.00	
Par value of bonds purchased	100,000.00	
Money worth 6%.		
Income from bonds		$2,000.00
Income from circulating notes loaned at 6%		6,000.00
		$8,000.00

LESS DEDUCTIONS.

Annual tax on circulating notes	$500.00	
Sinking Fund to retire premium on bonds at maturity, amount to be charged off each year	181.00	
Expenses (plates, express charges, etc.)	75.00	756.00
Net Income from Circulating Notes		$7,244.00
Net Income from loaning $104,000.00 (net cost of bonds purchased) at 6%		6,240.00
Net profit on taking out $100,000.00 of circulating notes		$1,004.00

Hence the net percentage of profit on taking out National Bank notes on this class of bonds, is about one per cent, based on their *present* market price.

The profit on taking out circulation on other United States bonds is even less.

Suppose the market price of the 2% bonds purchased was higher, say 108, as it was several years ago, the profit would be even less. Also, if the bonds decline in market value below par, (as in case of war, for instance), the bank must stand that loss; and purchase and deposit an additional amount of bonds, so as to make the market value of the bonds deposited equal to the amount of its outstanding circulating notes.

In order to retire its circulating notes and obtain possession of its United States Bonds, deposited as security therefor, the bank must send the Treasury Department an amount of lawful money equal to the amount of the circulating notes it wishes to retire. It can then "withdraw a proportionate amount of the bonds held as security for its circulating notes."

But the law says that not more than nine millions of National Bank Notes can be retired in any one month. Therefore, if the market price of United States bonds goes up to a point, where all profit on its circulation is wiped out, the bank may have to wait several months until previous requests for retiring circulation are out of the way. In the meantime United States bonds may have gone down in price.

As has been stated, a National Bank *can* take out an amount of circulating notes, or National Bank currency, equal to the amount of its capital. But the profit on the operation is so small, (leaving out the chances of actual loss), that many banks do not issue notes to the full amount allowed. The following figures relative to the total capital of all the National Banks, and the total circulation of these banks on the dates stated, conclusively prove this fact. (These figures are taken from the annual report of 1907 of the Comptroller of the Currency.)

	November 12, 1906.	January 26, 1907.	March 22, 1907.
Capital Stock	$847,514,653.00	$860,930,624.00	$873,669,666.00
Circulating Notes	536,109,931.00	545,481,870.50	543,320,375.00

	May 20, 1907.	August 22, 1907.
Capital Stock	$883,690,917.00	$896,451,314.00
Circulating Notes	547,918,696.00	551,949,461.50

It can be seen from these figures that the National Banks *could* have taken out *over three hundred millions* more of circulating notes than they *actually* issued during the time stated. And these figures are not exceptional.

Banks, other than National, "shall pay a tax of ten per centum on the amount of their own notes used for circulation and paid out by them." This tax is prohibitive and no State Banks issue circulating notes for this reason.

The so-called "Special Privileges" of Banks

In every political campaign, especially the National ones, the orators talk a great deal about the "special privileges" of banks. But they are never defined exactly.

According to them, one privilege (?) the bank enjoys is the power to lend a certain per cent of its depositors' money. But if it could not do this, what reason would the bank have for existing. That is its principal real source of profit.

Practically the only other privilege the National banks have, is the right to take out National Bank Notes, or currency. As has been shown in the remarks on "The Method of Issuing National Bank Notes," this privilege allows so little profit that the banks do not use it to the full extent of the law.

On the other hand, consider a few of the many risks the bank is constantly taking. Every loan it makes is a risk. A few bad loans, made through dishonest or visionary representations of its customers, may blot out the bank's profits for a year or more. Every check or draft cashed is a risk. Every check, draft, or note it takes for collection is a risk. In fact, every transaction the bank undertakes is more than ordinarily hazardous. Moreover the profits of the average city bank are not large. Considering their responsibilities and the innumerable ways, by which they may involve the bank, the salaries paid the employes, from the President to the messengers, are small. Also remember there is no "water" in the stock of banks. The capital of every National Bank must be fully paid in, before it is allowed to open for business; and in most of the States, the banks, other than National, must have their entire capital paid up within a year from their beginning. The net profits of successful banks, located in cities with a population of one hundred thousand or over, average about six to ten per cent. The business man, when considering

an investment in a mercantile or manufacturing enterprise, generally counts on double that amount of dividends.

If, as the politicians state, the banks enjoy so many "special privileges"; it is strange that the people of every section of the country do not rush in to organize and take stock in banks.

The Guarantee of Bank Deposits

In the National Campaign just ended, a great many reasons have been advanced for, and against, this project.

On its face, it is very attractive to the people. In actual practice it will not work out.

Two ways have been proposed. One is for the Government to assess the banks to pay the depositors of any failed bank. The other is for the Government to pay the losses of any depositors from the general taxes levied on all the people. Both ideas are unsound and socialistic.

It is just as reasonable to pass laws requiring the honest grocers to guarantee the weights of the dishonest, as to make the stockholders of an honest and careful bank guarantee the depositors of a dishonest or reckless one. If the banks should guarantee each other, why should not Life and Fire Insurance Companies, do likewise? And so on with all other lines of business. Could such laws be constitutional or sane?

On the other hand, suppose the Government levies taxes on all the people to pay the losses of bank depositors. There are many grave objections to this.

As has been explained in the quoted remarks of Mr. Horace White regarding the "Functions of a Bank," the deposits of a bank are not only the actual money deposited by its patrons, but also the proceeds of loans made by them and placed to their credit on the bank's books. You deposit a thousand dollars, and your account is credited. Another time you borrow a thousand dollars from the bank, and your account is credited. In each case the bank's deposits are increased because the credits to your account are increased. Now in checking against these credits to your account, you can not say whether you are drawing out the cash you deposited or the money you borrowed. Both amounts were put to your credit in one account. The bank can not keep two accounts for you; and if it could, to which account must it charge any certain checks you draw? Therefore, if the Govern-

ment guarantees the deposits, it is also practically guaranteeing the loans and discounts in some instances.

For example, say the bank has a reckless, or visionary, or dishonest man in charge. Brown gives his ninety day note, secured in some way, to the bank for $10,000.00. His account is at once credited with the proceeds, $9,850.00. Brown then gives his check to Jones, who keeps his account at the same bank, for $9,850.00, and Jones deposits that check to his credit. About this time the bank fails. It is found that the security on Brown's note is worthless. The banker should have known that; so, in taking the loan, he was probably reckless, visionary, or dishonest. But that does not concern Jones. His deposits are guaranteed by the Government. Moreover, Brown and Jones and the banker may have been confederates. Could any one prove that the banker was dishonest in taking Brown's note, or was it only bad judgment? Any number of dishonest schemes could be devised and successfully carried out with "guaranteed deposits."

The guarantee, the depositors of National Banks now have, is the amount of the bank's Capital and Surplus; the double liability of the stockholders; the strict supervision of the United States Government; and last, but by no means least, the character of the bank's officers. But if deposits were guaranteed, all these could be disregarded utterly. *You would then be attracted to a bank almost entirely by the liberality it showed in its loan department. The most reckless banker would have the most customers.* That would be only a logical and natural result.

Dishonorable men can always command capital to put through a "sure thing." Suppose some sharpers start a bank. With *"Deposits Guaranteed by the Government"* hung out in front of the bank, and temptingly high rates of interest offered on deposits, the people will not discriminate. You can not have a bank examiner stationed in every bank, day and night. As soon as the "guaranteed deposits" exceed the capital by a sufficiently large amount, the promoters of this "fly by night" institution decamp with the cash. And the Government, or the honest banks, pay the loss. *If deposits had not been guaranteed, there would have been no deposits.*

Thus dishonest and reckless men would be attracted to the banking business all over the country.

The only reasonable way for the Government to guarantee bank deposits is for it to go into the banking business and have entire charge of the banks in every way. In short, "Government Ownership" of banks. That is socialism pure and simple. Consider what the party in power could do, if it controlled all the money and the banking facilities of the country.

"Guaranteed Bank Deposits" sounds most attractive. So does guaranteed life or fire insurance policies, guaranteed railroad stocks and bonds, etc. We would all like to be guaranteed against loss of our money in every instance.

As has been stated, the average annual loss to depositors in National Banks, since their beginning, some forty-four years ago, has been only thirty-seven one thousandths part of one per cent. *Let the supervision of the banks by the National and State governments, be most strict and impartial; and there will be no necessity for any guarantee of deposits.*

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